

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Nelson County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$7,321,225 from the beginning of the year, resulting in a cash surplus of \$5,573,031 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$12,055,000. Future collections of \$18,358,265 are needed to pay all bonded debt principal and interest.

Note principal agreements totaled \$641,274 as of June 30, 2003. Future principal and interest payments of \$700,615 are needed to meet these obligations.

Capital lease principal agreements totaled \$298,000 as of June 30, 2003. Future principal and interest payments of \$376,749 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

Solid Waste Landfill:

An estimated \$4,747,279 is reported as landfill closure cost and \$5,788,167 postclosure care liability at September 9, 1994. Approximately 26.8% of the landfill airspace capacity has been used as of April 12, 2003. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

Subsequent Events:

The Nelson County Public Properties Corporation authorized the sale and issuance of \$375,000 first mortgage revenue bonds series 2002B to finance additional costs of the public courthouse project.

Nelson County has been designated as the host county for the HazMat Response Team 5. As host county, Nelson County has received a Homeland Security Grant.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
NELSON COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES.....	10
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE	15
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE.....	19
NOTES TO FINANCIAL STATEMENTS	20
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	33
SCHEDULE OF OPERATING REVENUE	37
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	41
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	45
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Nelson County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances; the statement of cash receipts, cash disbursements, and changes in cash balances-proprietary fund type; and the related statement of cash flows-proprietary fund type for the year then ended. These financial statements are the responsibility of the Nelson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Nelson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Nelson County, Kentucky, as of June 30, 2003, and its receipts and disbursements and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2003 on our consideration of Nelson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Nelson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2003

NELSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Dean Watts	County Judge/Executive
Maynard Wimsatt	Magistrate
Raymond Greer	Magistrate
Bernard Ice	Magistrate
Tim Hutchins	Magistrate
Roy Drake	Magistrate

Other Elected Officials:

John Kelley	County Attorney
Dorcas Figg	Jailer
Phyllis Mattingly	County Clerk
Diane Thompson	Circuit Court Clerk
Mike Newton	Sheriff
Barbara Tichenor	Property Valuation Administrator
Joseph L. Greenwell	Coroner

Appointed Personnel:

Martha Wheeler	County Treasurer
Dixie Smith	Finance Officer
Dixie Smith	Occupational Tax Administrator
Dixie Smith	Personnel Officer
Bobby Hamilton	Road Supervisor
Joe Cambron	911 Administrator
Leslie D. Karr	Chief Deputy

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

NELSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		<u>Enterprise Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Jail Canteen</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 3,771,748	\$ 25,434	\$ 38,019	\$ 3,835,201
Certificates of Deposit	200,000			200,000
Investments		1,539,384		1,539,384
Notes Receivable (Note 4)	<u>78,542</u>			<u>78,542</u>
Total Assets	<u>\$ 4,050,290</u>	<u>\$ 1,564,818</u>	<u>\$ 38,019</u>	<u>\$ 5,653,127</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Bond Payments (Note 5)	\$ 1,050,000	\$ 11,005,000		\$ 12,055,000
Note Payments (Note 6)	641,274			641,274
Capital Leases (Note 7)	<u>298,000</u>			<u>298,000</u>
Total Other Resources	<u>\$ 1,989,274</u>	<u>\$ 11,005,000</u>	<u>\$ 0</u>	<u>\$ 12,994,274</u>
Total Assets and Other Resources	<u>\$ 6,039,564</u>	<u>\$ 12,569,818</u>	<u>\$ 38,019</u>	<u>\$ 18,647,401</u>

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	<u>Governmental Fund Type</u>		<u>Enterprise Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Jail Canteen</u>	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bonds:				
Series 1994 (Note 5)	\$ 1,050,000	\$	\$	\$ 1,050,000
Series 2002 (Note 5)		11,005,000		11,005,000
Notes Payable (Note 6)	641,274			641,274
Capital Leases (Note 7)	298,000			298,000
Payroll Liabilities	1,554			1,554
Total Liabilities	<u>\$ 1,990,828</u>	<u>\$ 11,005,000</u>	<u>\$ 0</u>	<u>\$ 12,995,828</u>
<u>Equity</u>				
Retained Earnings	\$	\$	\$ 38,019	\$ 38,019
Fund Balances:				
Reserved	78,542	1,564,818		1,643,360
Unreserved	3,970,194			3,970,194
Total Equity	<u>\$ 4,048,736</u>	<u>\$ 1,564,818</u>	<u>\$ 38,019</u>	<u>\$ 5,651,573</u>
Total Liabilities and Equity	<u>\$ 6,039,564</u>	<u>\$ 12,569,818</u>	<u>\$ 38,019</u>	<u>\$ 18,647,401</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

NELSON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 11,795,445	\$ 4,176,725	\$ 1,134,596	\$ 491,776
Other Financing Sources:				
Transfers In	2,718,816	765,000	450,000	786,316
Total Cash Receipts	<u>\$ 14,514,261</u>	<u>\$ 4,941,725</u>	<u>\$ 1,584,596</u>	<u>\$ 1,278,092</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 18,324,915	\$ 4,342,548	\$ 1,804,986	\$ 1,278,092
Other Financing Uses:				
Transfers Out	2,718,816	1,186,316		
Principal Paid on Notes	205,511			
Principal Paid on Bonds	545,000			
Principal Paid on Capital Leases	35,000			
Total Cash Disbursements	<u>\$ 21,829,242</u>	<u>\$ 5,528,864</u>	<u>\$ 1,804,986</u>	<u>\$ 1,278,092</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (7,314,981)	\$ (587,139)	\$ (220,390)	\$
Cash Balance - July 1, 2002	<u>12,849,993</u>	<u>1,396,549</u>	<u>297,740</u>	
Cash Balance - June 30, 2003	<u>\$ 5,535,012</u>	<u>\$ 809,410</u>	<u>\$ 77,350</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

General Fund Type					
Local Government Economic Assistance Fund	Ambulance Fund	Occupational Tax Fund	Solid Waste Fund	Public Improvements Corporation Fund	Landfill Fund
\$ 176,849	\$ 914,615	\$ 959,639	\$ 860,164	\$ 420,309	\$ 2,576,916
	617,500				100,000
<u>\$ 176,849</u>	<u>\$ 1,532,115</u>	<u>\$ 959,639</u>	<u>\$ 860,164</u>	<u>\$ 420,309</u>	<u>\$ 2,676,916</u>
\$ 165,314	\$ 1,488,338	\$ 489,415	\$ 807,265	\$ 426,974	\$ 1,252,785
50,000		617,500	120,000		745,000
				183,011	22,500
				45,000	500,000
				35,000	
<u>\$ 215,314</u>	<u>\$ 1,488,338</u>	<u>\$ 1,106,915</u>	<u>\$ 927,265</u>	<u>\$ 689,985</u>	<u>\$ 2,520,285</u>
\$ (38,465)	\$ 43,777	\$ (147,276)	\$ (67,101)	\$ (269,676)	\$ 156,631
200,644		214,815	205,464	467,746	2,316,875
<u>\$ 162,179</u>	<u>\$ 43,777</u>	<u>\$ 67,539</u>	<u>\$ 138,363</u>	<u>\$ 198,070</u>	<u>\$ 2,473,506</u>

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	Capital Projects Fund Type
	Public Properties Corporation Courthouse Complex Fund
<u>Cash Receipts</u>	
Schedule of Operating Revenue	\$ 83,856
Other Financing Sources:	
Transfers In	
Total Cash Receipts	<u>\$ 83,856</u>
<u>Cash Disbursements</u>	
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,269,198
Other Financing Uses:	
Transfers Out	
Principal Paid on Notes	
Principal Paid on Bonds	
Principal Paid on Capital Leases	
Total Cash Disbursements	<u>\$ 6,269,198</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (6,185,342)
Cash Balance - July 1, 2002	<u>7,750,160</u>
	*
Cash Balance - June 30, 2003	<u><u>\$ 1,564,818</u></u>

* Investments are included as part of the cash balance.

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

NELSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	<u> </u>
	Jail Canteen Fund
	<u> </u>
<u>Cash Receipts</u>	
Jail Canteen Receipts	\$ 176,852
	<u> </u>
Total Cash Receipts	\$ 176,852
	<u> </u>
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	\$ 183,096
	<u> </u>
Total Cash Disbursements	\$ 183,096
	<u> </u>
(Deficiency) of Cash Receipts	
(Under) Cash Disbursements	\$ (6,244)
Cash Balance - July 1, 2002	44,263
	<u> </u>
Cash Balance - June 30, 2003	\$ 38,019
	<u> </u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE

NELSON COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
Cash Flows from Operating Activities:	
Operating Loss	\$ (6,244)
Net Cash Used by Operating Activities	\$ (6,244)
Net Decrease in Cash and Cash Equivalents	\$ (6,244)
Cash and Cash Equivalents - July 1, 2002	\$ 44,263
Cash and Cash Equivalents - June 30, 2003	\$ 38,019

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Nelson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Nelson County Public Properties Corporation and the Nelson County Public Improvements Corporation as part of the reporting entity.

Nelson County Public Properties Corporation

The Nelson County Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. The fiscal court maintains the financial activity of the Corporation titled in the financial statements as the Courthouse Complex Fund. Therefore, management has included the Nelson County Public Properties Corporation as a component unit, and the entity's financial activity has been blended with that of the Fiscal Court.

Nelson County Public Improvements Corporation

The Nelson County Public Improvements Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. The fiscal court maintains the financial activity of the Corporation titled in the financial statements as the Public Improvements Corporation Fund. Therefore, management has included the Nelson County Public Improvements Corporation as a component unit, and the entity's financial activity has been blended with that of the Fiscal Court.

Additional - Nelson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Nelson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Nelson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Nelson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, Occupational Tax Fund, Solid Waste Fund, Public Improvements Corporation Fund and Landfill Fund.

2) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Courthouse Complex Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Nelson County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the county's fixed assets are not included in the financial statements. These fixed assets include buildings, equipment, and land that are owned by the county.

D. Legal Compliance - Budget

The Nelson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts and investments are stated at cost. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Nelson County Fiscal Court:

North East Nelson County Fire Department	Nelson County Library
Nelson County Soil Conservation Service	Nelson County Extension

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investment	Category			Carrying Amount	Market Value
	1	2	3		
Securities	\$ 1,539,384	\$	\$	\$ 1,539,384	\$ 1,539,384
Totals	<u>\$ 1,539,384</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,539,384</u>	<u>\$ 1,539,384</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Receivables

- A. The county loaned, at seven-percent interest, \$1,690 each to 123 residents of the Melody Lake Area on March 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$25.51 per month repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$28,797.
- B. The county loaned, at seven-percent interest, \$2,500 each to five residents, and \$1,800 to one resident of the Roberts Road Area on May 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$29.03 per month for five residents and a \$20.90 per month repayment schedule for the other. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$5,315.
- C. The county loaned, at six-percent interest, \$3,446 each to seventeen residents of the Bellwood Road Area #1 on March 1, 1998, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$29.08 per month repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$31,584.
- D. The county loaned, at 6.24 percent interest, \$2,167 each to twelve residents of the Bellwood Road Area #2 on December 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$24.32 per month repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$10,172.
- E. The county loaned, at six-percent interest, \$600 each to eleven residents, and \$850 each to two residents of the Keith Knob Road Area on December 1, 1998, for the purpose of providing water lines to their homes. Terms of the agreement stipulate \$18.25 per month for eleven residents and \$25.86 per month for two residents repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2003, the principal balance due was \$2,675.

The total amount due the county was \$78,542 as of June 30, 2003.

Note 5. Long-Term Debt

A. Solid Waste Disposal Facility

On November 22, 1994, County of Nelson (Kentucky) Public Improvements Corporation issued First Mortgage Revenue Bonds Series 1994 dated November 1, 1994, in the amount of \$4,320,000 the proceeds of which were applied to the acquisition and construction of the Nelson County Solid Waste Disposal Facility. Bonds outstanding as of June 30, 2003 were \$1,050,000.

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Long-Term Debt (Continued)

A. Solid Waste Disposal Facility (Continued)

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 59,663	\$ 500,000
2005	27,413	550,000
Totals	<u>\$ 87,076</u>	<u>\$ 1,050,000</u>

B. Courthouse Complex

On February 15, 2002, Nelson County Public Properties Corporation issued First Mortgage Revenue Bonds Series 2002 dated March 1, 2002, in the amount of \$11,005,000 the proceeds of which is to be used to construct a courthouse complex. The Corporation has entered into the lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two-year period. Bonds outstanding as of June 30, 2003 were \$11,005,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 490,825	\$ 370,000
2005	479,725	380,000
2006	468,325	395,000
2007	455,488	405,000
2008	441,313	420,000
2009-2013	1,933,538	2,375,000
2014-2018	1,369,475	2,930,000
2019-2023	577,500	3,730,000
Totals	<u>\$ 6,216,189</u>	<u>\$ 11,005,000</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Notes Payable

A. Landfill

On April 12, 1995, County of Nelson (Kentucky) Public Improvements Corporation entered into an agreement to purchase land for a new landfill. The total debt of \$225,000 is payable over ten (10) years in equal installments of \$22,500 per year, plus interest calculated at the rate of 7% per annum. Principal outstanding as of June 30, 2003 was \$ 45,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 3,150	\$ 22,500
2005	<u>1,575</u>	<u>22,500</u>
Totals	<u>\$ 4,725</u>	<u>\$ 45,000</u>

B. Melody Lake Water Project

On October 18, 1996, Nelson County Fiscal Court entered into an agreement to borrow \$250,000 from Farmers Bank and Trust Company to finance the Melody Lake Water Project. The total debt is payable over ten (10) years in equal installments, with interest calculated at 80% of prime. Principal outstanding as of June 30, 2003 was \$ 9,235. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 3,255	\$ 23,765
2005	2,328	24,693
2006	1,373	25,648
2007	<u>388</u>	<u>22,168</u>
Totals	<u>\$ 7,344</u>	<u>\$ 96,274</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Notes Payable (Continued)

C. Shopping Center

On May 22, 1998, the Nelson County Public Property Corporation entered into an agreement to borrow \$1,600,000 from Farmers Bank and Trust Company to assist in the development of a shopping center. The original note was payable over ten (10) years in equal semi-annual installments, with a 5.3% interest rate. The note will be paid in full May 22, 2006. Principal outstanding as of June 30, 2003 was \$ 500,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 24,182	\$ 160,000
2005	15,737	160,000
2006	7,353	180,000
Totals	<u>\$ 47,272</u>	<u>\$ 500,000</u>

Note 7. Lease Agreements

The county has entered into the following lease agreements:

A. Airport Hangars

On April 14, 1992, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease was for airport hangars. The principal was \$105,000 at 5.63% interest rate for a period of 15 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003 was \$36,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,151	\$ 8,000
2005	1,596	9,000
2006	1,004	9,000
2007	384	10,000
Totals	<u>\$ 5,135</u>	<u>\$ 36,000</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Lease Agreements (Continued)

B. Water Tank

On January 5, 1993, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease was for a water tank. The principal was \$150,000 at 5.15% interest rate for a period of 15 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003 was \$63,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 3,567	\$ 11,000
2005	2,870	12,000
2006	2,112	13,000
2007	1,318	13,000
2008	499	14,000
Totals	<u>\$ 10,366</u>	<u>\$ 63,000</u>

C. Fire Truck

On April 4, 2001, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease was for the purchase of a fire truck. The principal was \$125,000 at 3.99% interest rate for a period of 10 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003 was \$104,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 4,959	\$ 11,000
2005	4,390	12,000
2006	3,791	12,000
2007	3,172	13,000
2008	2,523	13,000
2009-2011	3,446	43,000
Totals	<u>\$ 22,281</u>	<u>\$ 104,000</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

D. Airport Property

On April 30, 2002, the Nelson County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust (KACoLT). The lease was for airport property. The principal was \$100,000 at 4.50% interest rate for a period of 20 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003 was \$95,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 4,181	\$ 5,000
2005	3,956	5,000
2006	3,731	5,000
2007	3,506	5,000
2008	3,281	5,000
2009-2013	13,031	25,000
2014-2018	7,406	25,000
2019-2022	<u>1,875</u>	<u>20,000</u>
Totals	<u>\$ 40,967</u>	<u>\$ 95,000</u>

Note 8. Closure and Postclosure Care Cost of Municipal Solid Waste Landfill

State and federal laws and regulations require the Nelson County Fiscal Court to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste.

An estimated \$4,727,279 is estimated as landfill closure cost and \$5,788,167 postclosure care liability at September 9, 1994. Approximately 26.8% of the landfill airspace capacity had been used as of April 12, 2003. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

Note 9. Subsequent Events

The Nelson County Public Properties Corporation authorized the sale and issuance of \$375,000 First Mortgage Revenue Bonds Series 2002B to finance additional costs of the public courthouse project.

Nelson County has been designated as the host county for the HazMat Response Team 5. As host county, Nelson County has received a Homeland Security Grant.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

NELSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 4,134,540	\$ 4,176,725	\$ 42,185
Road and Bridge Fund	1,200,393	1,134,596	(65,797)
Jail Fund	487,402	491,776	4,374
Local Government Economic Assistance Fund	88,678	176,849	88,171
Ambulance Fund	820,000	914,615	94,615
Public Improvements Fund	521,900	420,309	(101,591)
Solid Waste Fund	791,000	860,164	69,164
Landfill Fund	1,766,000	2,576,916	810,916
Occupational Tax Fund	906,500	959,639	53,139
<u>Capital Projects Fund Type</u>			
Courthouse Complex Fund	150,000	83,856	(66,144)
Totals	<u>\$ 10,866,413</u>	<u>\$ 11,795,445</u>	<u>\$ 929,032</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 10,866,413
Add: Budgeted Prior Year Surplus			14,035,000
Borrowed Money			3,400,000
Less: Other Financing Uses			<u>(3,883,500)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 24,417,913</u>

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SCHEDULE OF OPERATING REVENUE

NELSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Revenue Categories</u>	Totals (Memorandum Only)	Governmental Fund Type	
		General Fund Types	Capital Projects Fund Type
Taxes	\$ 4,126,145	\$ 4,126,145	\$
Excess Fees	507,620	507,620	
Licenses and Permits	116,079	116,079	
Intergovernmental Revenues	1,996,948	1,996,948	
Charges for Services	4,247,884	4,247,884	
Miscellaneous Revenues	641,424	641,424	
Interest Earned	159,345	75,489	83,856
Total Operating Revenue	<u>\$ 11,795,445</u>	<u>\$ 11,711,589</u>	<u>\$ 83,856</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

NELSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	General Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,647,394	\$ 1,483,775	\$ 163,619
Protection to Persons and Property	3,471,797	3,261,511	210,286
General Health and Sanitation	2,298,576	1,986,166	312,410
Social Services	211,082	154,647	56,435
Recreation and Culture	675,833	500,731	175,102
Roads	1,847,180	1,746,177	101,003
Airports	15,000	14,425	575
Bus Service	220,000	193,961	26,039
Debt Service	302,263	152,455	149,808
Capital Projects	254,260	219,832	34,428
Administration	3,924,528	2,342,037	1,582,491
Total Operating Budget - General Fund Types	\$ 14,867,913	\$ 12,055,717	\$ 2,812,196
Other Financing Uses:			
Principal on Leases	80,000	35,000	45,000
Principal on KARP	3,050,000		3,050,000
Principal on Notes	208,500	205,511	2,989
Principal on Bonds	545,000	545,000	
TOTAL BUDGET - GENERAL FUND TYPES	\$ 18,751,413	\$ 12,841,228	\$ 5,910,185

Expenditure Categories	Capital Projects Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 9,500,000	\$ 6,269,198	\$ 3,230,802
Administration	50,000		50,000
TOTAL OPERATING BUDGET - CAPITAL PROJECTS FUND TYPE	\$ 9,550,000	\$ 6,269,198	\$ 3,280,802

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Nelson County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Nelson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nelson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 15, 2003

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

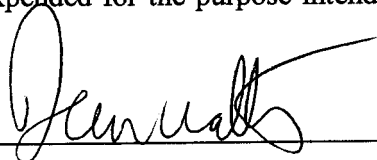
NELSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
NELSON COUNTY FISCAL COURT

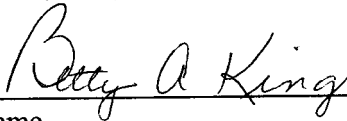
For The Fiscal Year Ended June 30, 2003

The Nelson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name
County Treasurer

